
Northwestern Michigan College Foundation

Financial Report
June 30, 2018

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Northwestern Michigan College Foundation

2018 NMC FOUNDATION BOARD OF DIRECTORS as of June 1, 2018

Bill F. Marsh, Jr., *Chair*
Al Zelinski, *First Vice-Chair*
Timothy J. Nelson, *Second Vice-Chair*
Kennard R. Weaver, *Trustee*
Jayne Mohr, *Secretary*
Stephen M. Fisher, *Treasurer*
Mark A. Lundmark, *Immediate Past Chair*
Rebecca Teahen, *Executive Director*

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Suzanne Allen
Barbara S. Benson
Douglas S. Bishop
Christopher E. Branson
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J. Kermit Campbell
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Kim Hagerty
Randy J. Kiessel
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Christopher D. Millward
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Kevin S. Schlueter
Susan K. Sheldon
Dave Shooltz
Martha A. Watts
James R. Weigand
Timothy F. Young
Nancy Zimmer

Faculty Representatives

Steven H. Rice
Cheryl M. Bloomquist

Student Representative

Isaac Dedenbach

Independent Auditor's Report

To the Board of Directors
Northwestern Michigan College Foundation

We have audited the accompanying financial statements of Northwestern Michigan College Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2018 and 2017 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Michigan College Foundation as of June 30, 2018 and 2017 and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

October 4, 2018

Northwestern Michigan College Foundation

Statement of Financial Position

June 30, 2018 and 2017

| | 2018 | 2017 |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,299,425 | \$ 1,837,781 |
| Investments (Note 4) | 38,815,641 | 36,480,841 |
| Receivables - Net of allowances (Note 3) | 4,247,715 | 3,075,375 |
| Cash surrender value of life insurance | 414,066 | 376,805 |
| Prepaid expenses and other assets | 6,296 | 16,487 |
| | <u>6,296</u> | <u>16,487</u> |
| Total assets | <u>\$ 45,783,143</u> | <u>\$ 41,787,289</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 6,158 | \$ 32,041 |
| Deferred revenue | 58,581 | 50,562 |
| Payable to Northwestern Michigan College (Note 5) | 1,049,706 | 875,213 |
| Split-interest agreements payable (Note 6) | 82,175 | 55,049 |
| | <u>82,175</u> | <u>55,049</u> |
| Total liabilities | 1,196,620 | 1,012,865 |
| Net Assets | | |
| Unrestricted net assets | 4,619,586 | 4,143,281 |
| Temporarily restricted net assets | 26,616,238 | 24,491,986 |
| Permanently restricted net assets | 13,350,699 | 12,139,157 |
| | <u>13,350,699</u> | <u>12,139,157</u> |
| Total net assets | <u>44,586,523</u> | <u>40,774,424</u> |
| Total liabilities and net assets | <u>\$ 45,783,143</u> | <u>\$ 41,787,289</u> |

Northwestern Michigan College Foundation

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|--|---------------------|------------------------|------------------------|----------------------|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue, Gains, and Other Support | | | | | | | | |
| Contributions | \$ 564,277 | \$ 2,458,638 | \$ 1,133,836 | \$ 4,156,751 | \$ 477,245 | \$ 1,708,504 | \$ 325,113 | \$ 2,510,862 |
| In-kind donations | 444,771 | - | - | 444,771 | 403,855 | - | - | 403,855 |
| Special event revenue | - | 280,903 | - | 280,903 | - | 242,902 | - | 242,902 |
| Net realized and unrealized gains on investments | 356,011 | 1,404,569 | - | 1,760,580 | 482,120 | 2,117,335 | - | 2,599,455 |
| Investment income | 156,489 | 659,344 | - | 815,833 | 143,164 | 634,948 | - | 778,112 |
| Change in value of split-interest agreements | - | 12,875 | - | 12,875 | - | (9,483) | - | (9,483) |
| Net assets released from restrictions | 2,532,646 | (2,532,646) | - | - | 2,135,934 | (2,135,934) | - | - |
| Total revenue, gains, and other support | 4,054,194 | 2,283,683 | 1,133,836 | 7,471,713 | 3,642,318 | 2,558,272 | 325,113 | 6,525,703 |
| Expenses | | | | | | | | |
| Program expenses | 2,313,342 | - | - | 2,313,342 | 1,945,422 | - | - | 1,945,422 |
| Support services: | | | | | | | | |
| Management and general | 754,178 | - | - | 754,178 | 713,935 | - | - | 713,935 |
| Fundraising | 592,094 | - | - | 592,094 | 486,143 | - | - | 486,143 |
| Total support services | 1,346,272 | - | - | 1,346,272 | 1,200,078 | - | - | 1,200,078 |
| Total expenses | 3,659,614 | - | - | 3,659,614 | 3,145,500 | - | - | 3,145,500 |
| Increase in Net Assets - Before net asset transfers | 394,580 | 2,283,683 | 1,133,836 | 3,812,099 | 496,818 | 2,558,272 | 325,113 | 3,380,203 |
| Net Asset Transfers | 81,725 | (159,431) | 77,706 | - | 54,769 | (80,916) | 26,147 | - |
| Increase in Net Assets | 476,305 | 2,124,252 | 1,211,542 | 3,812,099 | 551,587 | 2,477,356 | 351,260 | 3,380,203 |
| Net Assets - Beginning of year | 4,143,281 | 24,491,986 | 12,139,157 | 40,774,424 | 3,591,694 | 22,014,630 | 11,787,897 | 37,394,221 |
| Net Assets - End of year | \$ 4,619,586 | \$ 26,616,238 | \$ 13,350,699 | \$ 44,586,523 | \$ 4,143,281 | \$ 24,491,986 | \$ 12,139,157 | \$ 40,774,424 |

Northwestern Michigan College Foundation

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 3,812,099 | \$ 3,380,203 |
| Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities: | | |
| Bad debt expense | 9,113 | - |
| Change in value of split-interest agreements | (12,875) | 9,483 |
| Change in cash surrender value of life insurance | (37,261) | (24,234) |
| Net realized and unrealized gain on investments | (1,760,580) | (2,599,455) |
| Contributions restricted for long-term investment | (1,133,836) | (325,113) |
| Changes in operating assets and liabilities which (used) provided cash and cash equivalents: | | |
| Pledges receivable | (1,181,453) | (314,351) |
| Prepaid expenses and other assets | 10,191 | (7,654) |
| Accounts payable | (25,883) | 1,298 |
| Payable to Northwestern Michigan College | 174,493 | 73,741 |
| Deferred revenue | 8,019 | 3,243 |
| Net cash and cash equivalents (used in) provided by operating activities | (137,973) | 197,161 |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | 7,530,594 | 4,437,323 |
| Purchase of investments | (8,104,814) | (4,270,918) |
| Net cash and cash equivalents (used in) provided by investing activities | (574,220) | 166,405 |
| Cash Flows from Financing Activities | | |
| Cash contributions for endowments | 1,133,836 | 325,113 |
| Payments to split-interest beneficiaries | (9,999) | (7,527) |
| Receipts from split-interest beneficiaries | 50,000 | 10,001 |
| Net cash and cash equivalents provided by financing activities | 1,173,837 | 327,587 |
| Net Increase in Cash and Cash Equivalents | 461,644 | 691,153 |
| Cash and Cash Equivalents - Beginning of year | 1,837,781 | 1,146,628 |
| Cash and Cash Equivalents - End of year | \$ 2,299,425 | \$ 1,837,781 |

Note 1 - Nature of Business

Northwestern Michigan College Foundation (the "Foundation") was incorporated on July 8, 1981. The Foundation was organized to provide support exclusively for the objectives and purposes of Northwestern Michigan College (the "College") and to augment the facilities of the College in such a manner as may be designated by its board of directors, whose members are primarily appointed by the College's board of trustees, creating a voting majority. The Foundation is a discretely presented component unit of the College. All distributions made out of the Foundation, other than normal operating expenses, are to be made to or for the benefit of the College. Upon dissolution of the Foundation, its remaining assets will be distributed to the College.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the basis of generally accepted accounting principles (GAAP).

Classification of Net Assets

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

Temporarily restricted net assets of the Foundation consist of amounts received from donors who have specified the purpose for which the funds are to be spent. The Foundation has interpreted donor restrictions to also include related earnings as restricted for the intended purpose of the original donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

Permanently restricted net assets consist of amounts received from donors who have specified that the principal of the donation is to remain intact permanently, but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified purposes. Investment earnings on these funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

Contributions

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using 2.75 percent for June 30, 2018 and 2017. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Cash Equivalents

The Foundation considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Foundation maintains cash at various banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation had \$1,932,605 and \$1,299,827 in uninsured deposits as of June 30, 2018 and 2017, respectively.

Note 2 - Significant Accounting Policies (Continued)

Investment Valuation and Income Recognition

Investments held by the Foundation are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for further discussion of fair value measurements.

Investment income or loss and unrealized gains or losses are included in the statement of activities and changes in net assets as increases or decreases in unrestricted net assets. Investment income or loss and unrealized gains and losses are included in the statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless income or loss is restricted by donor or law. Any unrealized losses on amounts invested for donor-restricted endowments are recorded as temporarily restricted to the extent of unexpended earnings of the respective endowment fund. Realized gains or losses on investments sold are determined using the specific identification method. Commission and administrative fees related to investment management totaled approximately \$100,000 and \$131,000 for the years ended June 30, 2018 and 2017, respectively.

Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

Deferred Revenue

Deferred revenue consists of advance receipts for the Foundation's annual fundraiser in August.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs have been allocated between the various programs and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Net Asset Transfers

During the years ended June 30, 2018 and 2017, net assets were transferred between temporarily restricted, permanently restricted, and unrestricted classifications as the result of further analysis of documents and donor classifications on contributions received by the Foundation in prior and current years.

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation’s year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation’s year ending June 30, 2020 and will be applied on a modified prospective basis. The Foundation has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 4, 2018, which is the date the financial statements were available to be issued.

Note 3 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give generated from a capital campaign. They are included as follows:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Gross promises to give before unamortized discount | \$ 4,459,631 | \$ 3,286,328 |
| Less allowance for uncollectible contributions | (15,000) | (15,000) |
| Less allowance for net present value discount | <u>(196,916)</u> | <u>(195,953)</u> |
| Net contributions receivable | <u>\$ 4,247,715</u> | <u>\$ 3,075,375</u> |
| Amounts due in: | | |
| Less than one year | \$ 1,812,675 | \$ 302,864 |
| One to five years | <u>2,435,040</u> | <u>2,772,511</u> |
| Total | <u>\$ 4,247,715</u> | <u>\$ 3,075,375</u> |

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation’s assets measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

Note 4 - Fair Value Measurements (Continued)

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

| | Assets Measured at Fair Value on a Recurring Basis at June 30, 2018 | | |
|---------------------------|--|--|-----------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Balance at June 30, 2018 |
| Assets | | | |
| Mutual funds: | | | |
| Domestic equity | \$ 15,574,361 | \$ - | \$ 15,574,361 |
| International equity | 8,328,701 | - | 8,328,701 |
| Alternative strategies | 5,754,214 | - | 5,754,214 |
| Money market mutual funds | 16,455 | - | 16,455 |
| Total mutual funds | 29,673,731 | - | 29,673,731 |
| Fixed income: | | | |
| U.S. Treasury securities | - | 3,408,420 | 3,408,420 |
| Corporate bonds | - | 5,733,490 | 5,733,490 |
| Total fixed income | - | 9,141,910 | 9,141,910 |
| Total assets | \$ 29,673,731 | \$ 9,141,910 | \$ 38,815,641 |

Note 4 - Fair Value Measurements (Continued)

| | Assets Measured at Fair Value on a Recurring Basis at June 30, 2017 | | |
|---------------------------|--|--|-----------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Balance at June 30, 2017 |
| Assets | | | |
| Mutual funds: | | | |
| Domestic equity | \$ 14,141,813 | \$ - | \$ 14,141,813 |
| International equity | 5,443,410 | - | 5,443,410 |
| Alternative strategies | 6,868,191 | - | 6,868,191 |
| Money market mutual funds | 89,657 | - | 89,657 |
| Total mutual funds | 26,543,071 | - | 26,543,071 |
| Fixed income: | | | |
| U.S. Treasury securities | - | 2,207,159 | 2,207,159 |
| Corporate bonds | - | 7,730,611 | 7,730,611 |
| Total fixed income | - | 9,937,770 | 9,937,770 |
| Total assets | <u>\$ 26,543,071</u> | <u>\$ 9,937,770</u> | <u>\$ 36,480,841</u> |

The fair value of fixed-income securities at June 30, 2018 and 2017 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments based on quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.

Note 5 - Related Party Transactions

Northwestern Michigan College is a public higher education institution offering a broad array of programs. During the years ended June 30, 2018 and 2017, the Foundation made payments to the College in the amount of \$3,180,437 and \$2,774,927, respectively, primarily for scholarships, foundation expenses, and college programs. Amounts payable to the College were \$1,049,706 and \$875,213 at June 30, 2018 and 2017, respectively. The College also provides personnel services to the Foundation. These personnel services are measured by the Foundation at the cost recognized by the College for the personnel providing those services. Amounts totaling approximately \$445,000 and \$404,000 for such services for supervisory and clerical staff provided by the College to the Foundation are included in both unrestricted contributions and management and general expenses for 2018 and 2017, respectively.

Note 6 - Liability for Split-interest Agreements

The Foundation is party to split-interest agreements with certain donors. Under the agreements, the donor contributed funds to be held in trust, with the Foundation as the beneficiary. As a condition of accepting the gift, the Foundation is required to pay a specified amount each year to the donors or a designated beneficiary until his or her death. Payments to beneficiaries were \$9,999 and \$7,527 in 2018 and 2017, respectively. Upon the death of the beneficiaries, the remaining funds become the property of the Foundation. Obligations under the split-interest agreements represent the present value of future payments required to be paid to beneficiaries under the agreements. The present value is computed based on the normal life expectancy of the beneficiaries, using discount rates ranging from 1.8 percent to 7.0 percent.

June 30, 2018 and 2017

Note 7 - Net Assets

Unrestricted net assets consist of the following as of June 30:

| | 2018 | 2017 |
|-------------------------------|---------------------|---------------------|
| Board-designated net assets: | | |
| Quasi endowment | \$ 1,192,037 | \$ 1,118,318 |
| Deficit from endowment fund | (16,003) | (23,731) |
| Undesignated net assets | 3,443,552 | 3,048,694 |
| Total unrestricted net assets | <u>\$ 4,619,586</u> | <u>\$ 4,143,281</u> |

Temporarily restricted net assets as of June 30 are available for the following purposes:

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Time and purpose restrictions: | | |
| University Center | \$ 1,742,404 | \$ 1,726,575 |
| Programs and scholarships | 17,112,174 | 15,745,412 |
| Dennos Museum Center | 7,760,626 | 7,018,964 |
| Great Lakes Campus | 1,034 | 1,035 |
| Total temporarily restricted net assets | <u>\$ 26,616,238</u> | <u>\$ 24,491,986</u> |

Permanently restricted net assets are invested in perpetuity. The income on such investments, as specified by the donor, is to be used for the purposes noted. Permanently restricted net assets as of June 30 are as follows:

| | 2018 | 2017 |
|---------------------------------------|----------------------|----------------------|
| Endowment - Programs and scholarships | \$ 9,182,136 | \$ 7,995,399 |
| Endowment - Dennos Museum Center | 4,168,563 | 4,143,758 |
| Total | <u>\$ 13,350,699</u> | <u>\$ 12,139,157</u> |

Note 8 - Donor-restricted and Board-designated Endowments

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

| Endowment Net Asset Composition by Type of Fund as of June 30, 2018 | | | | |
|--|---------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ (16,003) | \$ 6,471,810 | \$ 13,350,699 | \$ 19,806,506 |
| Board-designated endowment funds | 1,192,037 | - | - | 1,192,037 |
| Total | \$ 1,176,034 | \$ 6,471,810 | \$ 13,350,699 | \$ 20,998,543 |

| Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018 | | | | |
|--|---------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets - Beginning of year | \$ 1,094,587 | \$ 5,881,899 | \$ 12,139,157 | \$ 19,115,643 |
| Investment return: | | | | |
| Investment income | 80,083 | 1,069,468 | - | 1,149,551 |
| Net appreciation (realized and unrealized) | 5,364 | 59,178 | - | 64,542 |
| Total investment return | 85,447 | 1,128,646 | - | 1,214,093 |
| Contributions | - | 2,730 | 1,133,836 | 1,136,566 |
| Appropriation of endowment assets for expenditure | - | (541,465) | - | (541,465) |
| Other changes - Transfers for changes in donor intent | (4,000) | - | 77,706 | 73,706 |
| Endowment net assets - End of year | \$ 1,176,034 | \$ 6,471,810 | \$ 13,350,699 | \$ 20,998,543 |

| Endowment Net Asset Composition by Type of Fund as of June 30, 2017 | | | | |
|--|---------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ (23,731) | \$ 5,881,899 | \$ 12,139,157 | \$ 17,997,325 |
| Board-designated endowment funds | 1,118,318 | - | - | 1,118,318 |
| Total | \$ 1,094,587 | \$ 5,881,899 | \$ 12,139,157 | \$ 19,115,643 |

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

| | Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017 | | | |
|---|--|---------------------------|---------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets - Beginning of year | \$ 984,260 | \$ 4,880,250 | \$ 11,787,897 | \$ 17,652,407 |
| Investment return: | | | | |
| Investment income | 61,517 | 811,603 | - | 873,120 |
| Net depreciation (realized and unrealized) | 52,810 | 698,503 | - | 751,313 |
| Total investment return | 114,327 | 1,510,106 | - | 1,624,433 |
| Contributions | - | 3,435 | 325,113 | 328,548 |
| Appropriation of endowment assets for expenditure | - | (511,892) | - | (511,892) |
| Other changes - Transfers for changes in donor intent | (4,000) | - | 26,147 | 22,147 |
| Endowment net assets - End of year | \$ 1,094,587 | \$ 5,881,899 | \$ 12,139,157 | \$ 19,115,643 |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$16,003 and \$23,731 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark, as defined in its investment policy statement. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

June 30, 2018 and 2017

Note 8 - Donor-restricted and Board-designated Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

In the absence of unique or special circumstances and subject to the determination of the Foundation finance and audit committee, distributions from permanently restricted funds or any funds treated as permanently restricted funds (PRF) will be determined according to the following formula and will occur on a monthly or quarterly basis:

$$\begin{aligned} & 70\% \text{ (up to 5 percent of the five-year moving average market value of PRF as of prior fiscal} \\ & \quad \text{year end)} \\ & + 30\% \text{ (prior year spending level) (prior year CPI + 1\%)} \\ & \hline & = \text{Annual target spending} \end{aligned}$$

Additionally, the treatment and accounting of restricted versus unrestricted gifts to the Foundation will be managed by college staff. The Foundation's board of directors will periodically review and approve policies and procedures governing gifts to the Foundation.